

Case study 3: Mark scheme

Topic 1: Business organisation and environment

Chapter 1: The nature of business activity

Chapter 2: Types of organisation

Chapter 3: Organisational objectives

Chapter 4: Stakeholders

Chapter 5: External environment

Chapter 6: Organisational planning tools

Chapter 7: Growth and evolution

Chapter 8: Change and the management of change

Chapter 9: Globalisation

Freeman Wallis plc (FW)

Freeman Wallis plc is a multinational conglomerate with regional headquarters in Europe, the Middle East, Africa, North America and Australasia. In 2009 its global turnover exceeded \$200m with net profits of \$7.36m, making it one of the top 500 companies in the world. The board of directors of FW have recently received an offer of \$1.2m for one of their subsidiaries, Hero Ltd. Hero Ltd specialises in production of plastic injection mouldings for the car industry. With the automotive industry not yet recovered from the recent deep recession, the directors are enthusiastic to take advantage of this cash buyer. Nevertheless, another FW subsidiary in the same town as Hero Ltd could suffer from local ill feeling if the new buyers do not treat workers well. Other FW subsidiaries buy some of their supplies from Hero Ltd. A sale would mean that they would no longer be guaranteed a cheap price. On the other hand, in a highly competitive world market for such products, they could use alternative global suppliers as quotas rarely apply to such products.

Legal fees for the sale would probably cost around 5% of the sale price. The buyers have said that they would be willing to delay purchase for a year in order to allow FW time to consider their decision. This does not mean, however, that they would be willing to offer the same price. Economists estimate that there is a 30% chance that economic conditions will remain unchanged next year. If that is the case, the offer for Hero would probably stay the same. There is a 40% chance that the recession will deepen. If that is the case, the value of Hero Ltd could fall by 20%. If the world economy turns around, FW do not expect the buyers to offer any more than 5% more for Hero Ltd.

Internal changes would be needed within the central Automotive Products Division of FW if the sale goes through. This would involve around 5% redundancies. Internal and external stakeholders have already expressed their concerns. The board of directors have alerted the HR director and public relations team to possible conflicts. It has been proposed that a project team should be assigned to address issues arising from the potential changes.

SL questions: 20 marks, 35 minutes

- 1 Define the term 'multinational conglomerate'. (2)

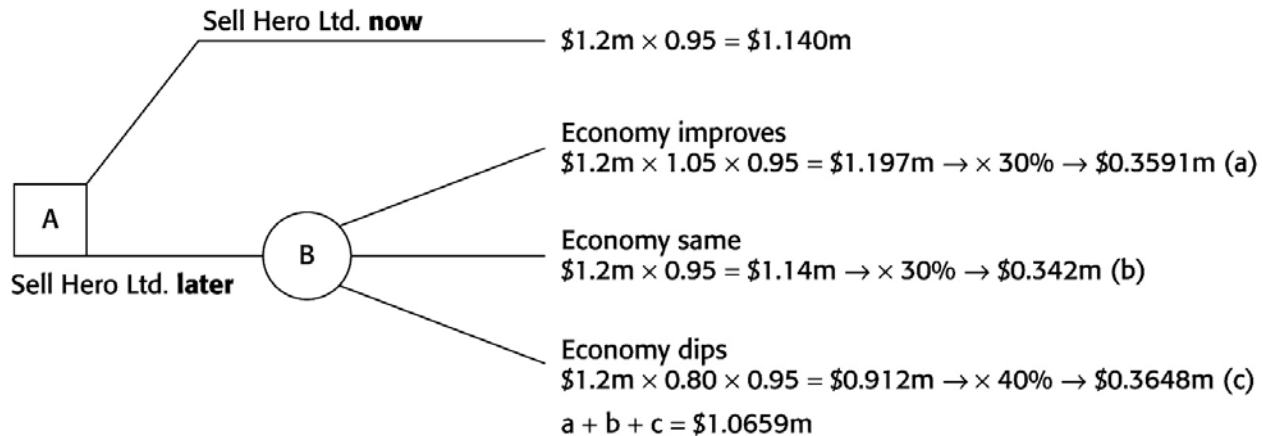
This is a large company with offices and/or subsidiaries in several countries. It will have a wide range of subsidiaries in many different industries and sectors.

- 2 Why do big international companies like FW often have subsidiaries in less-developed countries (LDCs)? (5)

- less-demanding pollution laws
- less-costly labour or safety laws
- less-costly labour or land
- closer to markets
- currency is likely to be weak, so easier to export
- possible tax advantages
- may avoid import tariffs or quotas
- natural resources in country
- any other relevant point

SL: apply **Resources table 1** mark band descriptors.

- 3 Draw a decision tree to decide whether FW should sell now or delay their decision. (6)

**6 marks:**

Fully correct. All elements labelled. Detailed calculations clearly shown.

5 marks:

One minor mistake. All elements labelled. Calculations clearly shown.

4 marks:

Two minor mistakes. Minor labels missing. Calculations shown.

2–3 marks:

Several mistakes. Basic understanding of decision trees apparent.

1 mark:

An answer is attempted but shows little understanding of decision trees.

- 4** Discuss how a project team could minimise the problems caused by the changes that could result from FW's sale of Hero. (7)

- 1 education/training
- 2 communication
- 3 involve all in decision process
- 4 support staff
- 5 negotiate/agree
- 6 manipulation
- 7 threaten

For full marks, candidates must recognise the existence of conflict between stakeholders.

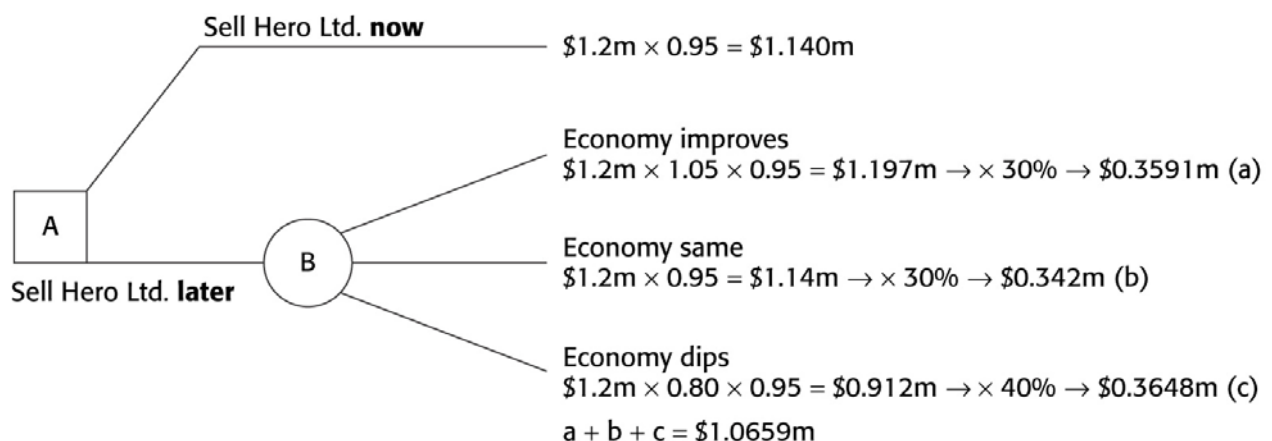
SL: apply **Resources table 1** mark band descriptors.

HL questions: 25 marks, 45 minutes

- 1** Define the term 'multinational conglomerate'. (2)

This is a large company with offices and/or subsidiaries in several countries. It will have a wide range of subsidiaries in many different industries and sectors.

- 2** Draw a decision tree to decide whether FW should sell now or delay their decision. (6)



6 marks:

Fully correct. All elements labelled. Detailed calculations clearly shown.

5 marks:

One minor mistake. All elements labelled. Calculations clearly shown.

4 marks:

Two minor mistakes. Minor labels missing. Calculations shown.

2–3 marks:

Several mistakes. Basic understanding of decision trees apparent.

1 mark:

An answer is attempted but shows little understanding of decision trees.

- 3** Discuss how a project team could minimise the problems caused by the changes that could result from FW's sale of Hero. **(8)**

- 1 education/training
- 2 communication
- 3 involve all in decision process
- 4 support staff
- 5 negotiate/agree
- 6 manipulation
- 7 threaten

For full marks, candidates must recognise the existence of conflict between stakeholders.

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is required.

- 4** Evaluate whether FW should wait to sell Hero Ltd. **(9)**

Qualitative arguments

Yes	No
A better offer may come along	Opportunity cost of having cash for an alternative investment
Gives longer to address redundancy and conflict issues	May lose sale altogether if wait

Quantitative arguments

Yes	No
Probabilities of economic futures are uncertain	Probabilities of economic futures are uncertain
If economy improves, the sale could bring \$57,000 more	Likely that value of sale will be \$74,100 less than selling now
	The probable value will never be achieved: could get \$228,000 less if economy dips

HL: apply **Resources table 2** mark band descriptors.

A justified conclusion is required.